Saskatchewan
Agriculture
and Food

Report of the Advisory Committee on GRIP and NISA

To Her Honour
The Honourable Sylvia Fedoruk
Lieutenant Governor
Province of Saskatchewan

Madam:

I have the honour to submit a Report of the Advisory Committee on GRIP and NISA pursuant to Section 12(5) of The Agricultural Safety Net Act.

I have the honour to be, Madam,
Your obedient servant,

Bernhard H. Wiens
Minister of Agriculture and Food

92-06190/

Recommendations for Changes to the Gross Revenue Insurance Plan (GRIP)

Submitted by: Advisory Committee on
GRIP and NISA

Date: February 11, 1992

Advisory Committee on
GRIP and NISA

February 11, 1992

Honourable Bernhard H. Wiens
Minister of Agriculture and Food
Room 348, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Mr. Wiens:

The Advisory Committee is pleased to present the first report on the Gross Revenue Insurance Plan (GRIP) and Net Income Stabilization Account (NISA) programs.

The Advisory Committee recommends:

(a) that the Government of Saskatchewan continue to request that the federal government implement a predictable and meaningful third line of defence program; and

(b) that the Government of Saskatchewan offer a revised GRIP for 1992 based on separate crop insurance and revenue insurance programs as outlined in this report.

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The Advisory Committee will continue to review problem areas and options related to GRIP and NISA and will submit reports when appropriate.

Yours sincerely,

Barry Senft, Chairman

Gordon Cresswell, Member

Brian Perkins, Member

Hartley Furtan, Member

Roy Piper, Member

Keith Hayward, Member

Lloyd Johns, Member

Leonard Kehrig, Member

Brett Meinert, Member

Sinclair Harrison, Member

Introduction

The Advisory Committee for the Gross Revenue Insurance Plan (GRIP) and the Net Income Stabilization Account (NISA) is appointed pursuant to Section 12 of The Agricultural Safety Net Act.

The Agricultural Safety Net Act provided that the Advisory Committee "shall inquire into and make recommendations respecting the gross revenue insurance program and the net income stabilization account programs."

Members of the Advisory Committee are appointed by the Minister of Agriculture and Food with the consent of the Lieutenant Governor in Council.

The current members of the Advisory Committee were appointed on November 29, 1992. The members are:

Barry Senft, Regina - Chairperson
Stuart Kramer, Regina
Keith Hayward, Melville
Roy Piper, Elrose
Jack Stabler, Saskatoon
Brett Meinert, Shaunavon
Sinclair Harrison, Moosomin
Brian Perkins, Saskatoon
Gordon Cresswell, Tisdale
Leonard Kehrig, Bjorkdale
Gil Pedersen, Cutknife
Nettie Wiebe, Delisle
Lloyd Johns, Zelma

The Advisory Committee has held a number of meetings to:

(a) develop an operating procedure;

(b) determine how to obtain producer input;

(c) outline problem areas and concerns; and

(d) analyze and propose solutions to solve problems and concerns.

The Advisory Committee is required by Section 12 (4) of The Agricultural Safety Net Act to make a report to the Minister of Agriculture and Food by February 15, 1992. This statutory requirement along with the necessity to have any changes to GRIP made well before spring seeding, limited the options of the Advisory Committee to obtain producer input.

The preference of the Advisory Committee was to hold extensive public consultations with farmers, farm groups, agribusiness and academics to define the problems with GRIP and NISA, and to develop and analyze options for solving these problems. However, the time constraints did not allow for this procedure. The Advisory Committee adopted the following procedures to obtain support:

(a) any person or group wanting to raise an issue or make suggestions for improving GRIP and NISA was asked to submit the issue and/or ideas in writing. All letters and briefs would be circulated to all members;

(b) members of the Advisory Committee would meet individually with any person or group to discuss issues and solutions; and

(c) members of the Advisory Committee would discuss any proposed changes with farmers in their local area and with farm groups.

Evaluating GRIP and NISA

The Advisory Committee is mandated to review GRIP and NISA and make recommendations for improvements. However, the Advisory Committee was also concerned about all problems facing the agriculture sector in the province. The Advisory Committee recognizes the major income and debt problems facing farmers. GRIP and NISA are only one part of the policy mix designed to assist farmers during these difficult times.

The Advisory Committee had several discussions about the adequacy of GRIP and NISA. They also had discussions about the relationship of second line of defence programs (i.e. GRIP and NISA) and the third line of defence programs. Some members of the Advisory Committee had the opinion that second line of defence programs should provide more assistance and farmers should not have to rely on ill-defined third line programs.

However, the Advisory Committee also recognized that the issue of the adequacy of second line programs and the implementation of third line programs was a much bigger issue including federal - provincial cost sharing and jurisdiction issues.

The Advisory Committee is of the opinion that these issues need further debate, study and new solutions.

The Advisory Committee made the decision to concentrate its efforts to making improvements to GRIP and NISA. These improvements would be made within the existing financial commitments by the federal government and the Saskatchewan Government.

Problem Areas with GRIP and NISA

GRIP

The Advisory Committee recognized the evolutionary nature of policy development especially related to GRIP. Four members of the Advisory Committee served on the original federal-provincial-producer Grains and Oilseeds Safety Net Committee. That Committee spent a great amount of time and effort to review safety net options. They have built a base that allows the Advisory Committee to continue to work to develop better safety net programs.

The Advisory Committee received many submissions from farmers and others outlining problem areas. Some problems related to the specific administration of GRIP on a individual farm level.

The issues raised can be categorized as follows:

(a) moral hazard - moral hazard refers to maximizing program benefits through inappropriate farming practices. Moral hazards include:

i) reducing input use; and

ii) not using appropriate farming practices.

In each case, net returns are maximized by reducing farmer costs and maximizing GRIP payments. These decisions are made because of GRIP and not in response to market price. It is not possible to document reduced input

use or poor farming practices at the aggregate level. However, a great deal of anecdotal evidence is circulating in rural Saskatchewan about farmers who have abused GRIP by not using inputs and/or appropriate farming practices. The potential exists for this problem to compound in 1992.

(b) adverse selection - adverse selection is making cropping decisions based on the support offered by GRIP and not on the basis of market prices and conditions. Adverse selection can create significant problems for some specialty crops where the level of production in Saskatchewan can significantly change market prices (i.e. a potentially large payout for a specialty crop can cause farmers to adversely select to grow more of that crop, driving market prices even lower). Again, the seeding pattern for 1992 does not show any evidence of adverse selection. It is claimed the newness of GRIP in 1991 reduced this problem, but that it will become more significant in 1992. It has been raised as a potential serious problem for future years.

(c) resource neutrality - resource neutrality can include adverse selection. It also includes the impact of cropping decisions on forage and pasture land and the impact on seeding intensity and wetlands. Again, there is no evidence from 1991 that suggests farmers are draining wetlands or reducing forage or pasture acres in response to GRIP. However, the perception exists that it will cause problems in future years.

(d) program administration - a number of concerns have been raised about program administration including:

i) GRIP requires too much administration. This results in a large administrative cost. The administrative requirements should be reduced and any savings diverted to program payments;

ii) establishing long term individual yields. There is a concern that long term individual yields can be increased above the long term potential yield of a producer. Some examples include:

1) counting any crop with a hail loss as a non-year;

2) allowing joint operations to utilize the highest yield of the joint operators; and

3) allowing producers with long term individual yields below the area average to be brought up to the area average.

iii) measuring bins is not an accurate method to determine actual production. It is also expensive to hire people to measure bins on 49,000 farms.

(e) program complexity - one common theme expressed by many farmers was why can't the program be simpler.

(f) the large premium load to pay for moral hazard program abuse and adverse selection. The premium methodology for GRIP includes a load for the above factors. A program with reduced moral hazard, less subject to program abuse and with no adverse selection can be funded with reduced premiums. This can result in the same level of support being provided at less cost or a program with increased support being provided at the same cost.

(g) the adequacy of the IMAP formula. The price used since 1985 reflects a world price with U.S. and E.C. dumping. The U.S. internal price may be more reflective of a "true" world price.

NISA

The Advisory Committee has not received as many comments on NISA. Some of the concerns raised include:

(a) the extension of NISA to other commodities;

(b) the administration of NISA, especially as to turnaround time on applications and payments;

(c) the complexity of NISA forms;

(d) the communication process for program information; and

(e) the definition of net eligible sales.

Program Options

The Advisory Committee has spent most of its time reviewing options to improve GRIP. It has done so because of the need to have decisions made for 1992. The Advisory Committee will spend more time evaluating NISA during the Spring of 1992.

The options explored to improve GRIP include:

(a) program changes to reduce price and yield offsets including:

i) the Jackson Offset used in Alberta;

ii) the Superior Management Adjustment used in Manitoba; and

iii) an option that would allow producers to keep 50% of any benefits from actual yields above the long term individual yield.

These programs allow producers to reduce the offsets between price and yield. Producers who grows crops larger than their long term average yield are allowed to retain the market revenue (i.e. the revenue from yields above average is not offset).

(b) programs developed by agricultural economists at the University of Saskatchewan (i.e. Wheat GRIP and Area GRIP). These programs try to reduce the problems identified previously by basing GRIP on wheat only or by calculating the support and payments on an area basis rather than on an individual farm basis.

(c) the GRIP program operating in Ontario. Ontario operates GRIP to provide a payment on seeded acres and the long term individual yields of producers. It has no offsets.

(d) a totally decoupled support program (i.e. enhanced NISA).

Options (a) to (c) are outlined in more detail in Appendix A.

The Advisory Committee evaluated each of the options against the concerns raised. The attached charts summarize this evaluation.

	Area GRIP	Wheat GRIP	Ontario GRIP
Support Offered	Offer support based on area experience. All farmers receive area payment adjusted for land quality.	Offers individual support based on wheat. Wheat covered as per GRIP. Other crops get equivalent wheat payment adjusted for land quality.	Crop insurance and revenue insurance totally separate. Revenue insurance operated as deficiency payment on area yield on seeded acres.
Offsets - Price and Yield - Between Crops	Yes - for area, not for individual No	Yes for wheat. No for other crops. No	No No
Input Use	Farmers get full benefit of input use.	Same as GRIP for wheat; farmers get full benefit of input use for other crops.	Farmers get full benefit of input use.
Setting Long Term Average Yields	Based on area average.	Individual for wheat and area for other crops.	Individual or can be area.
Crop Selection	Farmers get full benefit of selecting highest value crop.	Farmers get full benefit of selecting highest value crop	Farmers can choose inappropriate crops to maximize revenue.
Measuring Production	Not required. Utilize survey/declaration.	Required for wheat only. Utilize survery/declaration.	Not required. Declaration/spot checks.
Cost	Moral hazard and adverse selection costs reduced.	Moral hazard and adverse selection costs reduced.	Moral hazard cost reduced but still adverse selection problem.
Ease of Explanation	Somewhat simpler	Somewhat simpler, but not as simple as area GRIP.	Simple program
Program Delivery	Less administration required.	Less administration than GRIP but more than area GRIP.	Small administration.
Targeting	Targeted to area. Less targeted to individual.	Targeted to individuals for wheat but area for other crops.	Limited targeting.

	GRIP	Manitoba SMA	Alberta Jackson Offset	NISA
Support Offered	Offered as a combination of crop insurance and revenue insurance on a commodity basis. Support can never exceed revenue guarantee.	Same as GRIP except crop insurance can exceed revenue guarantee.	Same as GRIP except crop insurance can exceed revenue guarantee.	Contributions are on net elegible sales of grains and oilseeds.
Offsets - Price and Yield	Full	Farmers who are better than area average have reduced offset.	Farmers who are better than average and purchase reduced offset coverage have reduced offset.	No
- Between Crops	Optional	Optional	Optional	No
Input Use	Revenue can be increased by reducing input use.	Appropriate input use may be rewarded (depends on relationship of individual to area).	Appropriate input use rewarded (purchased before seeding).	Farmers get full benefit of input use
Setting Long Term Average Yields	Based on individual farmers.	Area average indexed to individual farmer.	Area average adjusted by farmer's experience.	Not required.
Crop Selection	Individual coverage, therefore, impacted.	Individual coverage, therefore, impacted.	Individual coverage, therefore, impacted.	Farmers get full benefit of selecting highest value crop.
Measuring Production	Required	Required	Required	Not required
Cost	Includes premium load for adverse selection and moral hazard.	Some moral hazard costs reduced but additional cost due to reduced offsets.	Some moral hazard costs reduced but additional cost due to reduced offsets.	Costs of moral hazard, adverse selection, and program abuse eliminated.
Ease of Explanation	Complicated program	Complicated program	Complicated program	Simple program
Program Delivery	Large administration required.	Large administration required.	Large administration required.	Administration is already in place.
Targeting	Targeted to individual farmer	Targeted to individual farmer. Extent of offsets not known until after harvest.	Targeted to individual farmer.	Limited targeting.

Recommendations

The Advisory Committee developed a working procedure to identify problem areas based on their own knowledge of GRIP, from the briefs submitted by farmers and farm organizations, and from conversations with farmers. The Advisory Committee then identified and examined a number of program options.

It became clear that any one option would not solve all problems. It was also clear that options that solved one set of problems could create other problems.

In the final analysis, the Advisory Committee recognized that trade-offs would have to be made. Some of the trade-offs include:

(a) programs that provide specific protection at the individual farm level increased moral hazard and adverse selection;

(b) programs that reduced offsets increased the cost of the program. These increased costs could be reduced by dropping support levels or having farmers assume more production risk; and

(c) programs that reduced administrative costs, such as measuring bins, would have to be based on at least some area information rather than totally on specific individual farmer information.

The Advisory Committee also recognized that any change to GRIP would not be acceptable to all producers. Some farmers think the current GRIP program is a good program.

However, the Advisory Committee is of the opinion that changes are required. The vast majority of the briefs and comments from farmers indicated that the program had to be changed. The Advisory Committee was told that if moral hazard, adverse selection, and program abuse continued, the program would not survive in any case.

The Advisory Committee is of the same opinion. The Advisory Committee strongly recommends that GRIP be changed for the 1992 crop year, otherwise the program will fall into disrespect.

The Advisory Committee strongly supports some general principles on how GRIP should operate. These general principles included:

(a) GRIP should be provided as separate crop insurance and revenue insurance programs;

(b) the crop insurance program should operate as it was prior to 1991, and that the crop insurance price be set at the same level as the market price used in the revenue insurance program;

(c) the revenue insurance program should operate more as a deficiency payment type program;

(d) that no offsets between price and yield should be included in the revenue insurance program;

(e) that both crop insurance and revenue insurance should reflect the management abilities of individual farmers in determining coverage and payments; and

(f) that only the revised program be offered to farmers in 1992 (i.e. current GRIP should not be continued as an option to farmers).

Based on this general agreement, the Advisory Committee developed a specific proposal for a revised GRIP (RGRIP). The basis of the proposal is as follows:

1) Provides total revenue protection based on separate plans for:

   (a) production risk - crop insurance would continue to operate as before GRIP to provide protection against production losses; and

   (b) revenue insurance - would be provided on the seeded acres of an individual farmer and an area average payment per seeded acre adjusted by an index (LTIY/LTAY).

   The index adjusts the payment to an individual farmer by these factors:

   (a) the summerfallow-stubble crop mix of the individual as compared to an area. e.g. A farmer with more summerfallow crop than the area is adjusted up and a farmer with more stubble crop is adjusted down;

   (b) the land quality of a farmer compared to the area average. This index adjusts for productivity; and

   (c) the management of the farmer as compared to the area. Above average farmers will have their payment adjusted up.

   The aggregate index can be calculated as the long term individual yield of each farmer divided by the long term area yield. i.e. LTIY/LTAY

2) The revenue insurance program will make payments based on:

   (a) the seeded acres of the farmer;

   (b) an area average payment based on the crops in the area, the indexed moving average price, the market price, and the long term area yield; and

(c) an index for land productivity, summerfallow-stubble crop mix, and management calculated on the crops seeded by the farmer.

3) Calculation of area average payment per seeded acre. The examples outlined in this report are based on a Rural Municipality. The Advisory Committee recommends the actual program be based on crop insurance risk areas or crop districts.

Crop	Seeded Acres *	Long Term Area Yield **	70% IMAP	Market Price	Payment $ million
wheat	231,000	26.6	$4.15	$2.50	$10.139
barley	55,000	45	$2.35	$1.50	$ 2.104
canola	60,000	22	$6.56	$4.50	$ 2.719
flax	24,000	16	$7.21	$3.00	$ 1.617
lentils	14,000	800	$ .22	$ .14	$ .896
Total	384,000				$17.475

Per acre payments = $17.475 mil/384,000
= $45.51 per acre

* Barley, canola and 7,700 acres of wheat are on summerfallow. Lentils, flax and 154,000 acres of wheat are on stubble.

** The long term area yield is the weighted long term yield of all the acres planted. It will change every year as the acres of each crop will change. Also the acres may be on different land quality and the mix of acres of summerfallow and stubble crop may change.

Note: Where the market price exceeds the IMAP, it would decrease the payment for an area. For example, if lentil prices increased to $0.25, it would decrease the area payment.

4) Each GRIP participant with seeded acres in the area would get the area average payment on those acres adjusted by the index.

5) Farm Examples

(a) Farmer A 1000 Acres

- crops 1/2 of cultivated acres each year.
- land quality is same as RM average.

Crop	Acres	Per Acre Payment	Index * LTIY/LTAY	Payment
wheat	320	$45.51	30/26.6	$16,427
canola	100	$45.51	22/22	$ 4,551
barley	80	$45.51	45/45	$ 3,641
Total	500			$24,619

$49.24 per seeded acre

* The wheat index reflects that Farmer A produces all his wheat on summerfallow whereas the area produces 2/3 of the wheat on stubble and 1/3 on summerfallow. The canola and barley indexes reflect that Farmer A and the area both produce canola on summerfallow. This farmer has average management abilities.

(b) Farmer B 1000 Acres

- continuous crops.
- land quality is same as RM average.

Crop	Acres	Per Acre Payment	Index * LTIY/LTAY	Payment
wheat	640	$45.51	20/26.6	$21,845
canola	200	$45.51	18.5/22	$ 7,646
barley	160	$45.51	45/45	$ 7,282
Total	1000			$36,773

$36.74 per seeded acre.

* The index reflects that Farmer B is growing all his crops on stubble and compares it to the area where wheat is 2/3 stubble and 1/3 summerfallow, and barley is all summerfallow and canola all stubble. This farmer has average management ability.

(c) Farmer C 1000 Acres

- continuous crops.
- land quality is 10% better than area average.

Crop	Acres	Per Acre Payment	Index * LTIY/LTAY	Payment
wheat	640	$45.51	22/26.6	$24,029
canola	200	$45.51	20.3/22	$ 8,410
barley	160	$45.51	49.5/45	$ 8,010
Total	1000			$40,449

$40.45 per seeded acre.

* The index automatically adjusts the farmer by comparing land quality and the summerfallow crop mix to the area. This farmer has average management ability.

(d) Farmer D 1000 Acres

- same as Farmer C except above average management ability.

Crop	Acres	Per Acre Payment	Index * LTIY/LTAY	Payment
wheat	640	$45.51	26.4/26.6	$28,907
canola	200	$45.51	24.2/22	$10,095
barley	160	$45.51	59.4/45	$ 9,612
Total	1000			$48,614

$48.61 per seeded acre.

* The index is the same as for Farmer C except this farmer has 20% higher yields due to management ability.

(e) Farmer E 1000 Acres

- Farmer E is a specialized lentil and designated barley producer.

Crop	Acres	Per Acre Payment	Index * LTIY/LTAY	Payment
lentils	400	$45.51	1000/800	$22,755
barley	100	$45.51	48/45	$ 4,854
Total	500			$27,609

$55.22 per seeded acre.

* The index adjusts for this farmer's above average management ability. The barley index adjusts for the fact that this farm is growing a malt variety.

Crop Insurance

Crop insurance would be restored to the pre-1991 program.

Crop insurance would have the following features:

(a) coverage from 50% to 80% of long term individual yields;

(b) annual coverage, producers may withdraw after any year;

(c) producers may choose which crops they want to insure;

(d) producers would have an opportunity to choose a price option equal to market price used in revenue insurance; and

(e) yields would continue to be established on an individual basis.

An administrative procedure would have to be established to operate crop insurance when the crop insurance price is not known until after the end of the crop year (or the pool closing for CWB grains).

The payment side can be handled relatively easily in that an initial payment can be made when a claim is made. The final payment would be made after the market price is known.

Crop insurance premiums are calculated on the basis a premium rate load and the crop insurance coverage (crop insurance price times the long term individual yield). With the crop insurance price not known until after the end of the crop year premium calculations become somewhat more complicated. Two options for premium setting include:

(a) a two-part premium similar to the two-part payment; or

(b) determining a premium load for the change in crop insurance price from the spring of one year until final market prices are known after the end of the crop year.

Saskatchewan Crop Insurance Corporation should develop the most appropriate mechanism.

Advantages of the Proposal

(a) Producers may choose to grow any crop they want and still receive the same insurance payout per acre. They would be able to respond to market signals.

(b) Producers lose some crop insurance coverage but they are now able to sell all of their production with no offsets.

(c) The decision of individual farmers to use or not use inputs and the farming practices of individual farmers does not impact the payment in any year. There will be an impact to farmers' index over time.

(d) No moral hazard - very difficult to abuse.

(e) Permit book audit at end of crop year to determine average yield for the year.

- No need for bin measuring.
- A one year lag in calculating yearly yields into formula.

(f) Program is still individualized.

Some members of the Advisory Committee also wanted to bring the attention of the government to the following issues:

(1) the proposed program increases the instability of individual farmers especially when production is below average (e.g. some insurance benefits are lost);

(2) the index for management redistributes payments in a specific manner that may need reconsideration;

(3) the proposed changes have to be implemented in a very short time period. The challenge will be to inform producers of the changes, and train crop insurance agents. Some producers who have arranged lines of credit and signed crop production contracts may be adversely impacted;

(4) more information is required on the costs and benefits of the proposed changes. Producers are concerned about these premium costs and the level of support they can expect. They also need to know how any program cost savings will be utilized in enhancements; and

(5) the proposed program is a change. Some producers may want the option to withdraw after the 1991/92 crop.

The Advisory Committee addressed a number of other issues including:

(a) inclusion of forage. The Advisory Committee supported the inclusion of forage, in principle, to ensure land use neutrality. If forage is included, sufficient additional funding would have to be available. More work is also required to define forage. For example, does it include dehy, forage seed production, hay production, and pasture?

The Advisory Committee plans to review the inclusion of forage in more detail throughout 1992.

(b) caps on individual coverage. The Advisory Committee reviewed the concept of capping coverage to individual farmers, i.e. an acreage or coverage cap per producer. It was recognized caps could be used to direct more assistance to smaller farmers. The majority of the Advisory Committee had the opinion that workable caps could not be developed and implemented. However, this issue will be reviewed again.

(c) cost of production. Some members of the Advisory Committee had the opinion that support should be based on the cost of production or at a minimum the current indexed moving average price should be expressed as a percentage of the cost of production. The majority of the Advisory Committee had the opinion that there was no one meaningful cost of production that would apply to an individual farmer or to all farmers.

The Advisory Committee also identified several other problem areas and program improvements that should be addressed during 1992 for possible implementation in future years. These include:

(a) premium deductions and program administration at source;

(b) spot loss hail insurance;

(c) the impact of safety nets on landlords and tenants as it relates to crop share arrangements;

(d) land stewardship;

(e) environmental concerns including the impact on wetlands and fragile lands, and

(f) deferment of GRIP payments.

The Advisory Committee will continue to review these issues, and other problems and solutions as identified by farmers.

The Advisory Committee also plans to begin an in depth review of NISA. The Committee will review the income stabilization concept within the safety net framework. The Committee has identified several major issues including:

(a) income stabilization compared to gross revenue insurance; and

(b) future programs.

The Advisory Committee will continue to submit reports as work is completed.

APPENDIX A

Detailed Description of Options

Manitoba
Superior Management Adjustment

Program Features	Description
Concept:	- GRIP provides the individual a guarantee of gross revenue per acre. This guarantee is independent of the yield achieved and the market price in the year in question.
Options:	- Two component GRIP (CI and RPC). - RPC and CI available separately.
Target Revenue:	- 70% [IMAP x LTAY x ACRES]
Long Term Average Yield:	- The area average yield is adjusted for an individual's production loss experience. Representative yield (based on area index).
Yield Adjustment:	- Many farmers end up with revenue insurance based on LTAYs. - The program penalizes the producer because target revenue is not as high and the normal yield will offset against price shortfall. - SMA: Rates individual performance compared to the area performance (expressed in percent) and provides increase target revenue to those producers who do better than the area (calculated after harvest).
Premium Load:	- Everyone is charged a higher premium rate to cover the costs of this adjustment, but only those with superior yields qualify for benefits. Additional premiums are charged to equal 8.1% of the extra target revenue. - Each crop premium rate will be different; durum higher and canola lower.
Moral Hazard:	- When prices are so low that there is little prospect that market returns can exceed target revenue, a producer may then choose to accept the guarantee and maximize his net revenue by altering input use, changing marketings, and selecting soils. If a program tells producers that you will get more for producing less; then they will produce less over the long run. - When market revenue decreases below target revenue, then the incentive is for a producer to collect the optimum benefits from GRIP.

- The premium load for moral hazard from program abuse can be reduced and the premium load for the special feature included without any change to the premium rate.

Input Use:

- Producers will decrease input use if IMAP > market; producers will perform at maximum economic yield to obtain their target margin from the program.

Administration:

Sign-up/Sales:

- Requires a thorough presentation to producers so that options and limitations are adequately explained.

Measurements:

- Require measurements of grains and acreages planted. This could be provided by declaration and spot check, plus a year end inventory reconciliation.
- Special features are calculated after harvest measurement.

Transparency:

- Producer knows his target revenue and program rules.
- Adjustments may occur after measurement.

Premiums:

- Based on the methodology set out by the actuary and approved by Canada.
- Federal government is willing to contribute to enhancements which are revenue neutral.
- This means that SMA requires a symmetrical relationship above and below an individual's target revenue. A producer would be rewarded for producing above his target yield and would enter into co-insurance which occurs under full offsets.
- TR = COV x IMAP x LTAY - [K x COV x IMAP x (LTAY - CY)] where CY is $\leq$ LTAY. (K = % deductible)

Crop Selection:

- GRIP may actually reduce the risk to specialty crops, producers and increase the area. GRIP provides a floor for revenue, i.e. producers with lower coverage levels in barley compared to wheat may actually switch to barley if they can obtain a target revenue near their long term average.

Soil/Land Use:

- Adverse selection of fields and crops by fields will be unabated.

New Crops:

- No provision would accommodate new crops without data (price, yield).

Producer Acceptance:

- Yes

Alberta
Yield Adjustment Offset

Program Features	Description
Concept:	- GRIP provides the individual a guarantee of gross revenue per acre. This guarantee is independent of the yield achieved and the market price in the year in question.
Options:	- Two component GRIP (CI and RPC). - RPC and CI available separately.
Target Revenue:	- 70% [IMAP x LTAY x ACRES]
Long Term Average Yield	- Area average yield is adjusted for an individual's production loss experience. - Representative yield (based on area index). - A new producer in crop insurance may use previous 3 years of individual records to make up to 15% adjustment to area average yield.
Yield Adjustment:	- Many farmers end up with revenue insurance based on LTAYs below their individual LTAY. - The program penalizes the producer because target revenue is not as high and the normal yield will offset against price shortfall. - Offset buyback option allows farmers who consider themselves above average producers and who don't have adequate yield history, to pay premiums based on their claimed expected yield while being insured at area average. - The difference between the expected yield and the area average (the offset adjustment) is not recognized by GRIP when determining the payout.
Premium Load:	- The producer/province pay the full premium on the "offset adjustment." - The payout/premium comparison will be affected by the degree of offset (producer yield less area yield) and the variability in producer yield.
Moral Hazard:	- When prices are so low that there is little prospect that market returns can exceed target revenue, a producer may then choose to accept the guarantee and maximize his net revenue by altering input use, changing marketings, and selecting soils. If a program tells producers that you will get more for producing less; then they will produce less over the long run.

- The premium load for moral hazard is reduced but not to the extent of the SMA premium load increase.

Input Use:

- Producers will decrease input use if the additional production above the target yield is => than market price.

Administration:

Sign-up/Sales:

- Requires a thorough presentation to producers so that options and limitations are adequately explained.

Measurements:

- Require measurements of grains and acreages planted. This could be provided by declaration and spot check, plus a year end inventory reconciliation.
- Special features are calculated after harvest measurement.

Transparency:

- Base target revenue is known prior to spring planting.

Premiums:

- Based on the methodology set out by the actuary and approved by Canada.
- Federal government is willing to contribute to enhancements which are revenue neutral.
- This means that SMA requires a symmetrical relationship above and below an individual's target revenue. A producer would be rewarded for producing above his target yield and would enter into co-insurance which occurs under full offsets.

Crop Selection:

- GRIP may actually reduce the risk to specialty crops, producers and increase the area. GRIP provides a floor for revenue. i.e. Producers with lower coverage levels of barley compared to wheat will obtain some additional benefits.

Soil/Land Use:

- Adverse selection of fields and crops by fields will be unabated as compared to a full GRIP.

New Crops:

- No provision would accommodate new crops without data (price, yield).

Producer Acceptance:

- Yes

Ontario

Program Features	Description
Concept:	- GRIP guarantee based on CI and RPC. Producer enters into co-insurance by assuming responsibility for a deductible.
Options:	- Two component GRIP (CI and RPC) - RPC and CI available separately.
Target Revenue:	- 80% [IMAP (80% LTAY) x ACRES] - Note: payout is based on LTAY so measurement error is diluted by averaging.
Long Term Average Yield:	- Individual coverage based on 10 years. New producers enter at area average where average is adjusted for location and soil.
Yield Adjustments:	- Buffering of averages between 70% and 130% and trending yields up for technology and underwriting producers with < 5 years experience (indexing adjustment up to 130%).
Premium Load:	- Ontario has a stable climatic environment and the biggest risk is price. CI premiums are lower than in Western Canada. Since there are **no offsets**, there is a small load for adjustments to coverage and above average production. - No offsets destabilize gross income because payments add to gross revenue when production is above average and reduce gross revenue when production is below average.
Moral Hazard:	- The incentive to cutback inputs is reduced because the producer co-insures. There is a 20% deductible which encourages producers to shoot for higher yield targets and the best possible grade. - No offsets above target revenue leaves option open for producers to use inputs. - If producer increases output, he increase revenues.
Administrative:	
Sign-up/Sales:	- Producers would not have as many features and rules as full GRIP with adjustments.
Measurements:	- Measurement is carried out to provide an individual's LTAY. Ontario measures in the Fall and planted area in the Spring.
Transparency:	- Producers may understand the features as an ASA type program.

Premiums:	- Based on national baseline premium. If the current premium contributions remain, Saskatchewan would have a coverage level near 80% of IMAP on 80% of the LTAY.
Crop Selection:	- GRIP/RPC may actually encourage producers to shift production to highest revenue crops.
Adverse Selection:	- Producers freely select their fields, cultivars, etc. to maximize potential revenue, however, CI rules apply.
New Crops:	- Are subject to the same concerns as prairie GRIP.

AGRIP
Area Gross Revenue
Insurance Program

Program Features	Description
Concept:	- Two separate programs which would remain separate and voluntary. First, crop insurance with added improvements in 1992 and second, AGRIP, which would operate as an area program as opposed to an individual program.
Options:	- Two programs (CI and RPC), separately.
Target Revenue:	- $GR = \sum_{i=1}^{n} .70\% \text{ IMAPi}$; $ACREi = \frac{AAYFi \times FACREi + AAYSi \times SACREi}{ACREi}$ $\sum_{i=1}^{n} ACREi$ - IMAP i = IMAP for crop i - ACRE i = acreage in the region seeded to crop i - AAYF i = average yield for crop grown on fallow - FACRE i - acreage of crop i planted on fallow in the region - AAYS i = area average yield for crop i grown in stubble - SACRE i = total acreage planted on stublle of crop i - n = total number of crops - Note: the sum of contract yields and acres would serve this purpose.
Long Term Average Yield:	- The area average would be composed of the summation of long term averages. - The CI individual yields would continue with some modification.
Yield Adjustment:	- New entrants or new contracts would not be affected by RPC between neighbours or crops. - Crop insurance would retain its individualized program.
Premiums:	- The premiums would be based on an area basket of commodities. Moral hazard would be reduced. Loads for these "unknown" elements would be reduced. Premiums to producers could fall or coverage increase.
Moral Hazard:	- When prices fall below target price, the incentive to not produce increases. With AGRIP, decreasing production directly varies with decreasing revenue. Payouts would be made on a regional basis. When the area average yield, multiplied by the market price of a crop is less then the aggregate target revenue for the region, a payout is made.

- A producer cannot influence their indemnity by incurring lower than average yields. The only variable a producer can choose to affect the size of his payout is total seeded acres.

Offsets:

- Exist between yield and price at the regional level.
- Note: This may raise concerns becasue an individual can have below average yields due to an insurable element and the area production be above average, attain the target revenue and the producer is left with **crop insurance only**.

Administration:

Sign-up/Sales: - Vigorous sales program with highly competent agents.

Measurements: - Would be required as part of the federal/provincial crop insurance agreement but over three years.

Transparency: - Producers would have an easier time of selecting crops but would lose the benefit of bankability.

Costs: - Should be less costly than a full GRIP individualized.

Premiums: - Unclear as to what the premiums would be to make this program actuarily sound.

Crop Selection, Land Use and New Crops

- would be influenced by CI biases as compared to a full GRIP which magnifies CI problems.

- Equity between producers:
    a) regions and commodities
    b) low risk and high risk producers
    c) size of producers

Resource Neutrality:

- No adverse selection in this program.
- Program could be tied to land versus operator.
- Land use by rating.
- Equity between producers:
    a) regions and commodities
    b) low risk and high risk producers
    c) size of producers

Competitiveness:

- Promotes activity around the norm and does not reward the people further from norm.
- The change in programs may be viewed negatively in times when income and debt are a problem.
- Perception of reduced benefits.

EXAMPLE OF AGRIP

Average Farm Yield	30 bushels
1991 Yield	35 bushels
Area Information	
Average Yield	28 bushels
1991 Yield	35 bushels
Market Revenue	35 x 2.50 = 87.50
Revenue Protection	(28 x 4.15 - 35 x 2.50) = 28.70
Area/Approach	
TOTAL BENEFIT	116.20
FULL GRIP *	124.50

Disadvantages of AGRIP

1. Not individualized

   - major departure from the 1991 program.
   - perception may become reality.

2. Redistributing benefits (dilution)

   - Saskatchewan: 30,000,000 seeded acres insured for $3.0 billion
     Now: 49,000,000 cultivated acres received $3.0 billion of indemnities.

   - Low risk producers and above average producers forced to average of the area.

3. Targeting and benefits may not be targeted to the people most needing help.

   i.e. Individual with hail or wheatmidge or drought will be below average in an above average region. This results in no payout. Ultimately, a producer only has CI to fall back on. (RM 275). Producers are at 80% of average in an area that produced a 140% crop.

   TR = 30 bu x 4.15 = 124.50
   CI = 21 bu x 2.50 = 52.50
   AMR = 42 bu x 2.50 = 105.00 AGRIP = 19.50
   IMR = 24 bu x 2.50 = 60.00
   ITR = 60.00 + 19.50 = 79.50 Not <u>124.50</u>

4. Perception of reduced benefits when co-insuring.

5. Does not address issues related to wetlands and breaking marginal land.

6. Funding on Seeded Area is Desirable - fallowing and set asides is not in the cards with the public.

WGRIP

Program Features	Description
Concept:	- Same as AGRIP
Options:	- Same as AGRIP
Target Revenue:	- Same as AGRIP except wheat only for yield and price.
Advantages/Disadvantages:	
Resource Neutrality:	- Since the majority of the prairies grow wheat, it would be a common reference. - However, where there are regions which grow a mix of crops and the classes and quality of wheat varies from the provincial average. - The transfer of government benefits may bias one region or commodity group over another. - Producers can make the decision to grow more or less wheat depending on market expectations.
Adminstration:	- One of the simpler programs to administer becasue you require IMAP, current yield and historical yield.
Transparency:	- Producers base their support on their own productive capabilities (crop insurance records) and the revenue guarantee of the average producer.
Administration:	- measurement. - this year's payout based on this year's production.
Targeting	- All acres are covered. - In Saskatchewan, the benefits of 30 million seeded acres would be diluted over 49 million cultivated acres.

EXAMPLE OF ONTARIO PROGRAM

Producers in Ontario are able to choose either CI or RPC or both.

The Target Revenue will always be 80% of your average farm yield, regardless of your acutal production.

Average farm yield	100 bu
Crop Insurance	$2.50/bu
Support Price	$3.35/bu
Ontario Average Market Price	$2.60/bu
Average Yield	
Market Revenue	$2.60/bu x 100 bu
Revenue Protection	(3.35 - 2.50) x .80(100)
GRIP	

	Average	Below Average	Above Average
Average Yield	100 bu	100 bu	100 bu
Current Yield	100 bu/ac	80 bu/ac	120 bu/ac
Market Revenue 2.60 x 80	$260.00	$208.00	$312.00
Revenue Protection (3.35 - 2.60) x .80(100)	$ 60.00	$ 60.00	$ 60.00
Totals	$320.00 ac	$268.00 ac	$372.00 ac

BUYBACK EXAMPLE

Average Yield	30
Target Yield	40
Support Price	4.15
Market Price	2.50
Target Revenue	124.50

ANNUAL YIELD	MARKET REVENUE	YIELD TO COUNT	REVENUE TO COUNT	REVENUE INDEMNITY	TOTAL RETURNS
0	0	0	0.00	124.50	124.50
2	5	2	5.00	119.50	124.50
4	10	4	10.00	114.50	124.50
6	15	6	15.00	109.50	124.50
8	20	8	20.00	104.50	124.50
10	25	10	25.00	99.50	124.50
12	30	12	30.00	94.50	124.50
14	35	14	35.00	89.50	124.50
16	40	16	40.00	84.50	124.50
18	45	18	45.00	79.50	124.50
20	50	20	50.00	74.50	124.50
22	55	22	55.00	69.50	124.50
24	60	24	60.00	64.50	124.50
26	65	26	65.00	59.50	124.50
28	70	28	70.00	54.50	124.50
30	75	30	75.00	49.50	124.50
32	80	30	75.00	49.50	129.50
34	85	30	75.00	49.50	134.50
36	90	30	75.00	49.50	139.50
38	95	30	75.00	49.50	144.50
40	100	30	75.00	49.50	149.50
42	105	32	80.00	44.50	149.50
44	110	34	85.00	39.50	149.50
46	115	36	90.00	34.50	149.50
48	120	38	95.00	29.50	149.50
50	125	40	100.00	24.50	149.50

REVENUE PROTECTION PLAN
AUTOMATIC ADJUSTMENT FOR SUPERIOR MANAGEMENT

Assumptions:

Crop	RS Wheat	
Prod. Premium Rate	7.70%	(includes 5% discount for also insuring under CI)
Support Price	$4.15	
Market Price	$2.45	
Crop Insurance	70%	
Adjustment Deductible	5%	
Maximum Adjustment	25%	
Individual Information:		
1991 Yield	25.0	
Assigned Coverage	20.0	
1991 Yield/Coverage	125%	
Area Information:		
1991 Yield	25.0	
LTAY	25.0	
1991 Yield/Coverage	100%	
Management Adjustment	20%	

	Individual Unadjusted	Individual Automatic Adjustment
Unadjusted Target Revenue	83.00	83.00
Superior Management Adjustment	n/a	16.60
Adjusted Target Revenue	83.00	99.60
Less: Crop Insurance (@ 70%)	0.00	0.00
Value of Production	61.25	61.25
Equals: Revenue Payment	21.75	38.35
Less: Basic Premium	6.39	6.39
Adjustment Premium	n/a	1.28
Net Program Payment	15.26	30.68

Note: Additional premium charged on additional payment.

GRIP REVIEW COMMITTEE

MINORITY REPORT

Submitted by Nettie Wiebe and Gil Pedersen

The chief objective of a grains and oilseeds safety net must be to provide adequate income security for producers through a predictable, affordable program. We do not believe that either the current GRIP or the program proposed by our fellow committee members meet this objective.

Further considerations, such as social impact, market signals and farming practices should not be adversely affected by a safety net program. The failure of the proposed revisions to GRIP on all of these counts constrains us to issue this minority report.

EVALUATING GRIP

The key issues that must be addressed when evaluating GRIP in the larger context are:

(1) The unfair and unequitable cost-sharing for the program between federal and provincial governments, and between governments and producers in the agreement. The "existing financial commitments by the federal government and Saskatchewan" cannot be accepted as unalterable.

(2) The lack of progress on instituting a "Third Line of Defence" mechanism.

We recommend:

(a) That the Government of Saskatchewan reject the "off-loading" of financial responsibility that the federal government is perpetrating with GRIP and insist on renegotiating a fairer deal for Saskatchewan in this agreement.

(b) That strenuous efforts be made to construct a predictable disaster relief of "Third Line of Defence" mechanism to avoid the inadequate, ad hoc arrangements farmers have had to make do with to the present.

PROBLEM AREAS WITH GRIP

We believe that in order to evaluate a program and recommend changes to it, there must first be an agreed upon set of objectives by which to measure the current plan and any proposed changes.

We submit the following as objectives to be aimed for.

A grains and oilseed second line safety net should:

(a) Provide average efficient grains and oilseed producers with support adequate to keep them in business.

(b) Indicate clearly to producers and government when and how the third line program is structured and when it activates.

(c) Be geared for grains and oilseeds or other field crops that are included in the plan and not at other commodities.

(d) Be cognizant of and not exacerbate, but not be expected to deal with problems such as soils conservation, farm debt and diversification.

(e) Minimize distortions between crops (i.e. wheat and canola, etc.). However, it must be realized that grains and oilseed safety net will cause distortions between the grains and oilseed sector as opposed to other sectors if they are not also adequately protected.

(f) Should be capped to ensure best social use of public money.

The most pressing problems identified with the current GRIP program are:

(1) The program offers inadequate and declining support for farmers. The target price, as defined by IMAP, is a steadily declining price. This means that the support levels offered by the program will become increasingly inadequate for farmers as the cost of the program and the cost of producing crops continue to rise. Such a program is not affordable, let alone helpful, for farmers in the long term.

(2) The program is too expensive. Many farmers are suffering severe income shortages. The high premiums make the present GRIP too costly. A higher level of federal support is necessary to make the program affordable.

(3) Moral hazards (both perceived and real) result in a very costly program as well as one that is continuing to lose credibility and support among farming people. A very real moral hazard at present is that without appropriate changes, farmers will withdraw from GRIP altogether as the program is seen to be inadequate, easily abused and ultimately unaffordable.

(4) Adverse selection of crops. Although the IMAP has no relation to present market conditions, it is a key determinant in crop selection. A target price that is based on a 15 year rolling average of past prices not only masks present market signals, it distorts them.

(5) Administratively too complex. Any program that is highly individualized is open to more moral hazard, and hence, demands more complex administration and more policing. These features are costly as well as very unpopular with farmers.

We recommend:

(a) That yield insurance and revenue insurance be separated.

Yield insurance should be returned to its pre-1991 format with individualized Crop Insurance coverage as recommended in the majority report. Individual coverage is appropriate for yield insurance as production management affects yields.

Revenue insurance should be based on a basket area GRIP. Area coverage is appropriate in revenue insurance as prices are seldom a function of the individual producer's management skills. Where price can be a function of marketing skills, as in the marketing of non-board grains, the higher market price is the only appropriate reward for such skills. Diverting public money into augmenting market prices can only serve to distort market pricing signals.

(b) That the target price be fixed in a stable and predictable way. The declining federal financial support, which the falling IMAP assures, is unacceptable.

(c) That the target price be expressed in a comprehensible and predictable way as a percentage of the cost of production. Methodologies for calculating cost of production are in use in other sectors of agriculture (e.g. supply-managed sectors). The present GRIP agreement permits cost of production formulas as the basis of support calculations, as is demonstrated by the production expenditure model adopted by Quebec. Using the cost of production of average efficient farmers as the basis for the target price would make the genesis of the target price far more transparent than the mysterious IMAP presently used. It would afford a way of assessing the adequacy of the target price.

(d) That lower premiums be instituted. This could be achieved as a lower premium load for moral hazard and adverse crop selection would be possible due to the removal of individualized revenue insurance. It is generally agreed that "programs that provide specific protection at the individual farm level increase moral hazard and adverse selection." (GRIP Committee Report, Page 11.)

(e) That a cap on the program payout to any individual farm operation be instituted on the revenue insurance component. This would reduce the maximum liability of the program and add predictability to the cost of it. More importantly, it is imperative that the public money used in the program serve a positive public purpose. Capping the program would encourage farm population stability by preventing a concentration of the public dollars in the hands of a few large entrepreneurs.

ADVANTAGES OF MODIFIED GRIP (MGRIP*)

(a) Producers may choose to grow any crop they want and still receive the same insurance payout per acre. They would be able to respond to market signals.

(b) Offsets would keep premium costs down.

(c) Permit book audit at end of crop year to determine average yield for year.

(d) Lower premiums reduce incentive for producers to withdraw from program as market prices come up.

(e) Expressing target as percentage of cost of production makes program payouts easy to defend to non-farmers.

(f) No incentive to produce if market signals indicate otherwise.

(g) Cap on payouts makes better use of public money.

(h) Program is simple to explain and easy to administer.

(i) Very difficult for individuals to cheat.

(j) Easy to add other crops (i.e. forages, forage seeds, etc.).

(* See Appendix II for further details)

Nettie Wiebe, Member

Gil Pedersen, Member

APPENDIX I

Comments on RGRIP outlined in report of the Advisory Committee on GRIP and NISA:

(1) RGRIP does not appear to lower premium costs because offsets have been eliminated.

(2) RGRIP will tend to destabilize farm income as payouts will be as big in years of good crops as in years with crop failures.

(3) Crop share rental arrangements between landlords and tenants will be complicated because of index. Also, new producers will be discriminated against in the land rental market.

(4) RGRIP encourages more production when international market signals may not favour greater production of grains.

(5) A program that is designed to encourage greater production as well as being individually targeted, will not likely be acceptable under GATT.

(6) RGRIP does not address present IMAP target pricing so a declining target price is assured. RGRIP offers declining, hence, sl.ort-term support to farmers.

(7) Forage will be difficult to include in RGRIP as yield factors will have to be calculated.

(8) Organic producers and people who have suffered multiple crop losses are discriminated against under RGRIP.

Other Comments:

The proposition that "workable caps could not be developed and implemented" (GRIP Committee Report, Page 21) is contradicted by most of our experience in farm programming. Western Grain Stabilization had a maximum levy provision which also limited the potential payout per farm. NISA allows contribution on a maximum of $250,000 of eligible sales per farm operator - in effect, capping the public benefits per farm. The federal/provincial agreement which established GRIP specifically allows the capping of coverage per farm on an acreage basis (Section 13.2, Page 15). In fact, this capping provision was used in the first year of the program to limit the maximum coverage per farm to each farm's three-year average seeded acreage plus ten percent.

APPENDIX II

Modified GRIP (MGRIP) would operate as an area program rather than as an individual program.

The area can be an RM, a crop district or a Crop Insurance risk area.

Under MGRIP, each crop producer would be guaranteed the area average yield for the average basket of crops grown in the area, based on his/her soil classification, and summerfallow/stubble mix times the target price per bushel.

For example, in a particular area it might be:

wheat	40%
barley	25%
canola	25%
other	10%
	100%

All farmers in the area participating in revenue insurance would use the area seeding percentages to calculate their coverage.

Farmers would receive this payout per seeded acre regardless of what crop they actually seeded.

Offsets would apply between area price and yield.

Payouts would be made on a regional or area basis when the area average yield, as described above, multiplied by the market price of crops in the basket are less than the guaranteed revenue for the region. Once the payout per acre for a particular year is determined, it would be paid to each producer in the region for all seeded acres regardless of whether those areas were in wheat or any other annual crop. Therefore, the program is still market responsive since the program still has the incentive to seed alternative crops based on market signals. Furthermore, there is no incentive for moral hazard because the producer cannot influence their indemnity by incurring lower than average yields. The only variable a producer can choose to affect the size of his/her payout is total seeded acres on fallow and stubble.